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Intelligence Report

Office of Near Eastern and South Asian Analysis

5 September 1996

Jordan: Bread Riots Over, but Economic Problems Remain

King Hussein has weathered the fallout from doubling bread prices in August and the riots that followed. Jordan's limited liberalization after the riots in 1989 provided a peaceful outlet this time for protesting bread subsidy cuts, limiting the spread of the riots.

[Redacted]

Over the next year, riots could again break out when other food subsidies are cut, as planned. King Hussein could roll back new subsidy cuts, but doing so would risk financial support from the IMF and World Bank. Other options to soothe public opinion if protests again turn violent include:

- Naming a new prime minister.
- Cutting tax exemptions and other privileges of the elite.
- Allowing election of upper house representatives in the National Assembly.

Over the longer term, Hussein will need to obtain resources from abroad—including aid from the United States and other donors—to sustain the country's living standards:

- Foreign investment and integration with the Israeli economy offer the best option for jobs in the long run.
- Repairing ties to the Gulf states would also increase prospects for financial support and jobs for expatriate Jordanians.

[Redacted]

APPROVED FOR RELEASE
DATE: FEB 2008

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More Than Bread Alone

[Redacted]

The August bread riots reflect the Jordanian public's unhappiness with unemployment, the economic effects of Amman's tougher stance toward Saddam Husayn's Iraq, and the lack of tangible economic benefits from peace with Israel. The spark was the jump in bread prices from \$0.12 to \$0.26 per kilogram, as well as hikes in the prices of 300 other foodstuffs—moves urged by the IMF:

- Most lower income Jordanians were hard pressed to make ends meet before the price increases, and they are angry that the most important item in their diet has become more expensive.
- According to Jordanian income surveys, households consume more bread—both as a share of total consumption and in absolute amounts—as their incomes go down. Members of the poorest fifth of Jordanian households spend 15 percent of their income on bread, which accounts for only 2 percent of spending by the wealthiest two-fifths.
- The government sought to offset the impact of higher food prices on the poor by boosting public-sector salaries—which would cover almost half of the labor force—and by granting a quarterly supplement of \$5 per person to low-income families. [Redacted]

Almost every year protests erupt in July and August, when temperatures are high, water is low, and electricity supply is erratic. Last year protesters rallied against price hikes for hummus and *ful*—a bean that is a staple of the Jordanian diet. [Redacted]

Many Jordanians are bitter that their expectations of an economic windfall from peace with Israel have not panned out. [Redacted]

[Redacted]

- When the peace treaty was signed, many Jordanians talked about buying a car or starting a business with the benefits from peace [Redacted]

[Redacted]

[Redacted]

[Redacted]

- A USIA survey of 1,000 Jordanian adults conducted during 29 June-15 July shows that 60 percent believed the peace process was harming the Jordanian economy. [Redacted]

King Hussein's tougher stance toward the Iraqi regime also helped set the stage for the riots. Iraq is the country's sole source of oil, and many Jordanians oppose Amman's \$200 million reduction in annual trade with Baghdad, fearing that Jordan is giving up a major market without ensuring other buyers. [Redacted]

Living Beyond Its Means [Redacted]

By most measures, the Jordanian economy is doing well. Last year GDP growth reached 6.4 percent with inflation running at only 2.3 percent. Most economists predict a similar performance this year. [Redacted]

The benefits of growth are not evenly distributed. According to the USIA survey, 66 percent of Jordanians believe their economic situation has deteriorated in the past year. In particular, the economy is not creating enough jobs for the country's secondary school and university graduates:

- The official jobless rate is 15 percent, and most observers believe the actual rate is 20 to 25 percent and that underemployment is chronic.
- According to Jordanian Government spokesmen, most rioters were men in their teens and early twenties. As such, they were unlikely to be reacting solely to higher food prices because most are not responsible for feeding a family. [Redacted]

Because of support for Iraq during the Gulf war, Jordan lost much of the financial assistance and emigrant remittances it relied on to maintain living standards. Saudi Arabia ended its financial support, and the Gulf states expelled Jordanian expatriates. Western aid of \$100 million a year has not replaced Saudi subsidies:

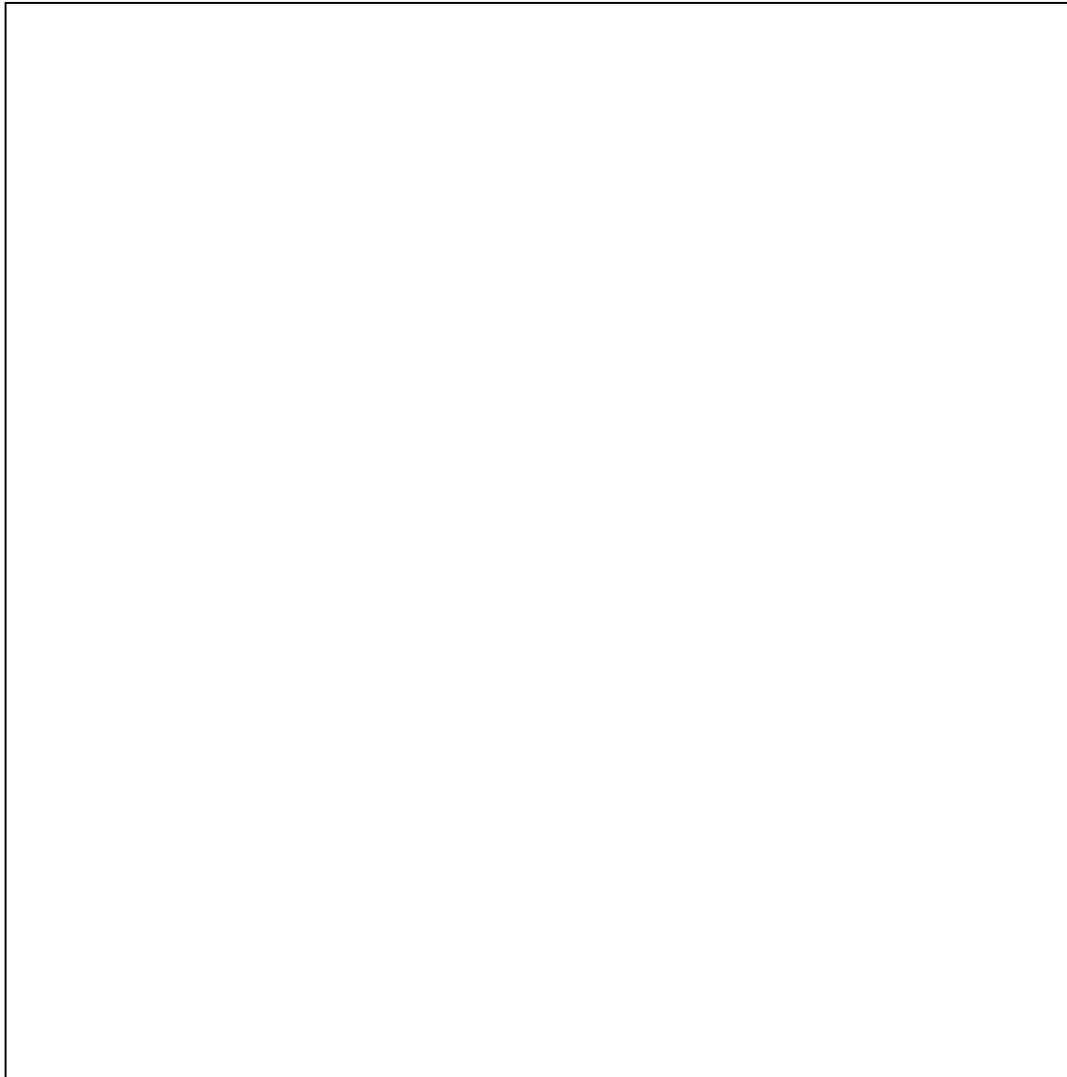
- The Gulf states transferred preferential access for Jordanian exports to Egypt, which participated in the Gulf war coalition.

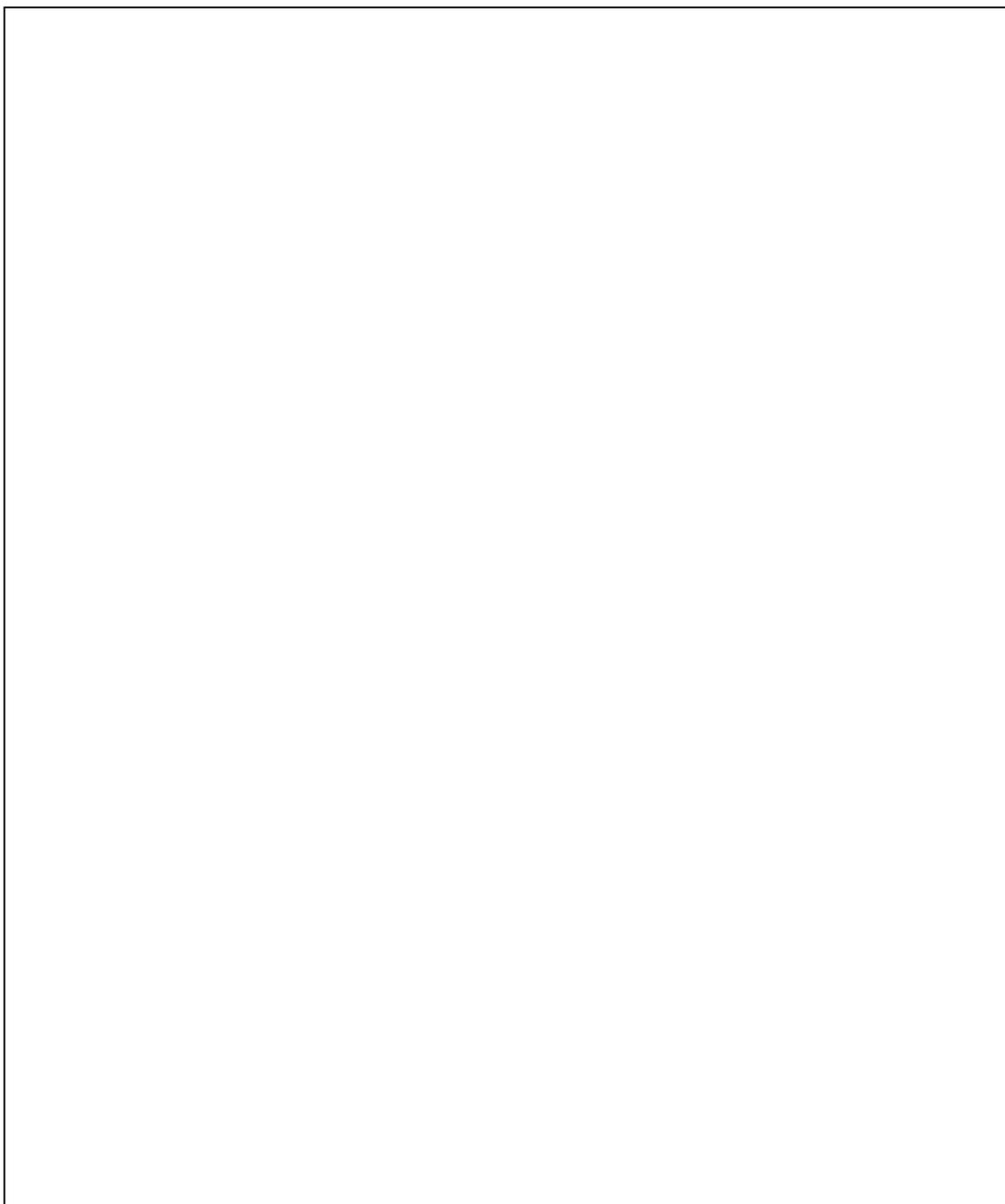
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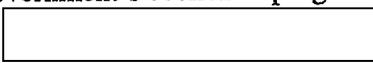
- Although the King's visit to Saudi Arabia this August signals better relations with the Gulf states, [redacted] [redacted] Nonetheless, the Saudis have hired 2,500 Jordanian teachers for the coming school year, according to the local press. [redacted]

Jordan lacks the resources to sustain its living standards. Water shortages limit agricultural and industrial potential, and mining is only a small part of the economy, according to Jordanian statistics. Industry, which accounts for about 15 percent of the economy, consists mainly of low-value textiles and apparel, chemicals, and some assembly work. Services—mostly transportation, tourism, and construction—account for 70 percent of the economy's output, according to Jordanian statistics. [redacted]





Waiting for an Upturn 

King Hussein is sticking to his government's economic program and has publicly backed Prime Minister Kabariti.  the government's

success in weathering the riots has encouraged Kabariti to implement plans to cut subsidies on milk, sugar, and rice during the coming year.

At the same time, Amman is trying to reassure the public that the government is strengthening the economy. Kabariti's pledge after the riots to lift tariffs on almost 500 capital goods and streamline customs procedures won plaudits from the private sector as a boost to foreign investment and trade competitiveness. The government is highlighting the IMF's decision last week to release \$60 million and Japan's \$8 million donation to rebuild the Allenby Bridge.

In the next year violence could again break out when other food subsidies are cut. The King could backtrack on new subsidy cuts, but doing so would put financial support from the IMF and the World Bank at risk. Hussein has other options to soothe public opinion if protests again turn violent:

- He can make Kabariti a scapegoat and name a new prime minister, as he did in 1989 in response to popular discontent.
- He can take the populist route of cracking down on the privileges of the elite, such as tax exemptions for automobiles.
- He can liberalize the political system further, such as allowing direct election of the upper house of the National Assembly, the House of Notables.

Over the longer term, King Hussein is wagering that aid and foreign investment will improve the employment picture. He wants to repair ties to the Gulf states so that large numbers of Jordanians can again work there and exporters can regain former markets. The Jordanian Government will point to the riots as a strong argument for aid donors to increase financial support.

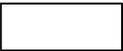
The King remains committed to the peace process. He has said that Israeli and other foreign investment can create jobs in Jordan, easing unemployment:

- The country's educated work force offers opportunities for labor-intensive production lines to move from high-wage countries such as Israel to low-wage Jordan.
- Jordanian officials at the Amman economic summit last year said that being next door to the dynamic Israeli economy opens economic opportunities for Jordan, according to the press.



- Nonetheless, long lead times mean that it will take years before foreign investment could make a significant dent in unemployment. 

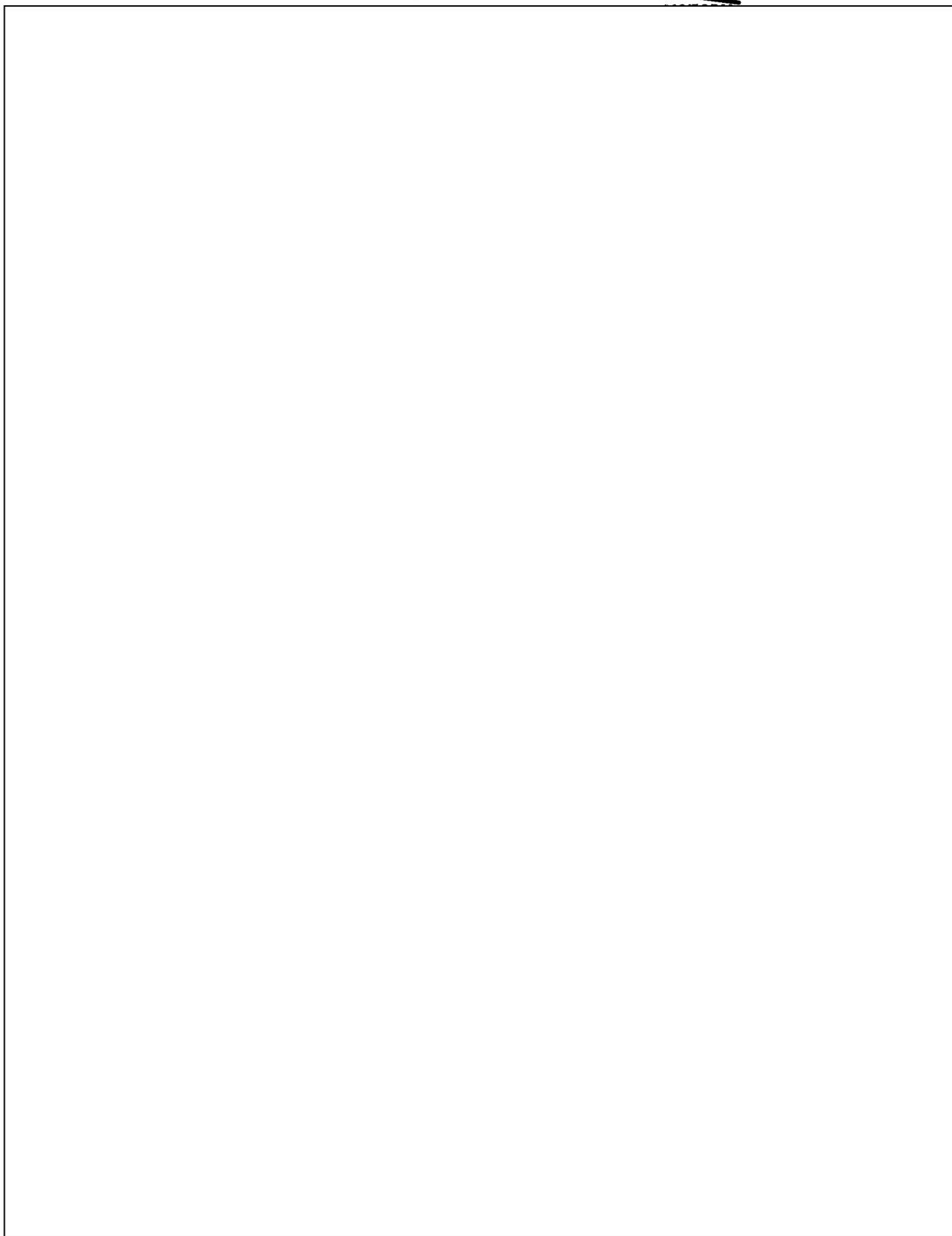
The 1989 Bread Riots

Jordan is more politically stable now than seven years ago, when Amman last tried to cut bread subsidies. Unlike 1989, the violence in August involved fewer than 1,000 people and was restricted to the economically depressed southern part of the kingdom. 

In 1989 the Jordanian Government tried to contain a ballooning budget deficit by trimming bread subsidies, which made bread so cheap that farmers and shepherds were feeding it to livestock. The resulting outburst of violence shocked the government, forcing King Hussein to return from an overseas trip to oversee the effort to restore order:

- Once security forces regained control—killing about a dozen protesters in the process—the King found himself on the political defensive.
- To assuage public opinion, King Hussein fired his prime minister, abandoned the attempt to cut food subsidies, eased censorship of the press, and introduced direct popular elections of the members of the lower house of the National Assembly, the House of Deputies. 

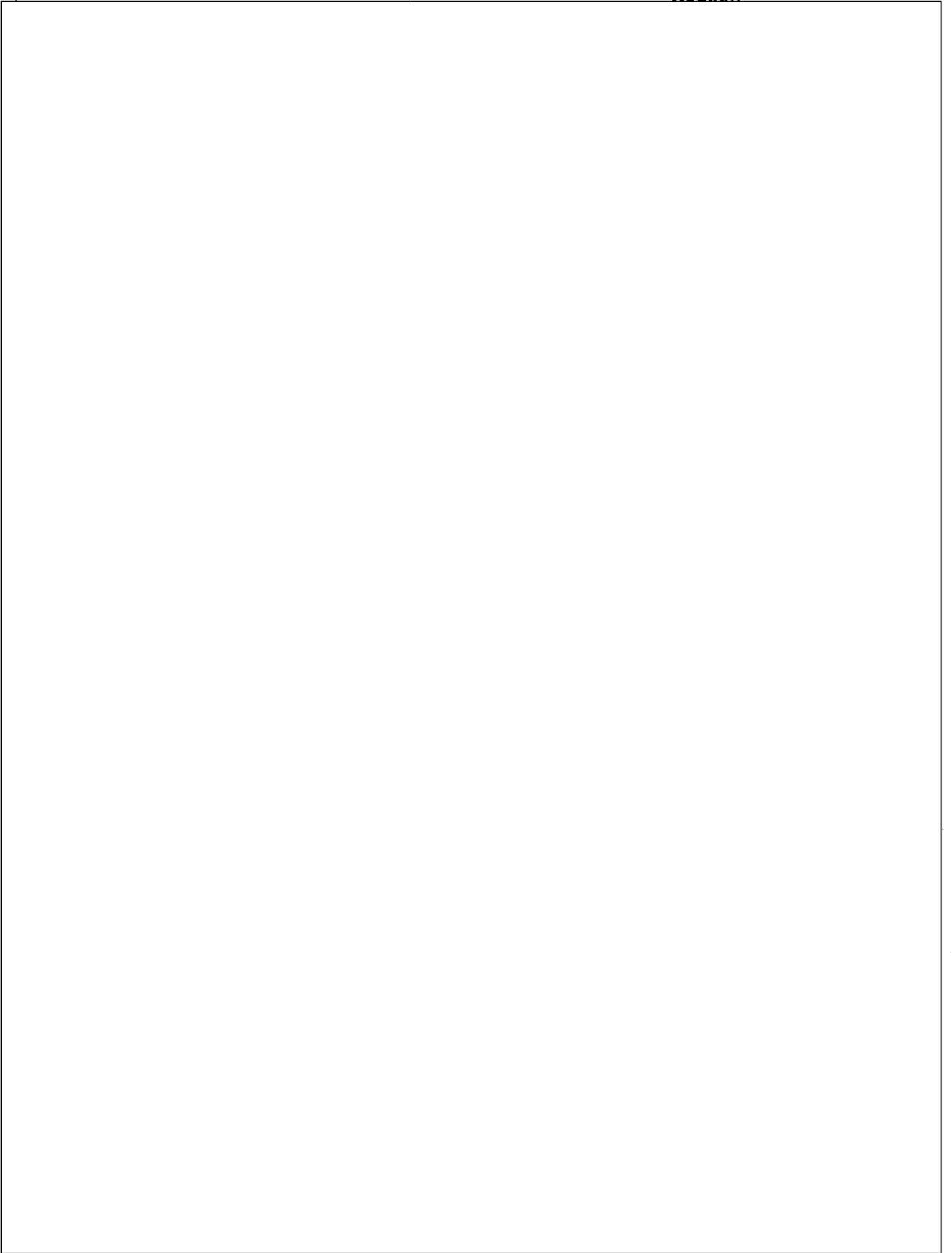
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